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C O N F I D E N T I A L SECTION 01 OF 02 NOUAKCHOTT 000611

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TAGS: ECON EFIN IMF MR
SUBJECT: IMF AGREES TO A NEW THREE YEAR PROGRAM WITH MAURITANIA

Classified By: CDA Dennis Hankins for reasons 1.4 (B and D)

¶1. (C) Summary. A delegation of IMF advisors visited Mauritania to mark the resumption of GIRM and IMF relations following the 2008 coup d'etat. The IMF announced a Special Drawing Right loan valued at USD 80 million for Mauritania, as well as plans for a three-year IMF aid plan to begin in ¶2010. Initial economic indicators told a better than expected story concerning the isolation of the Mauritanian economy during the previous year, however, some of the IMF analysts indicated after the public meeting that there are fears that the initial statistics given to the IMF team do not represent the true picture of the Mauritanian economy. The GIRM insisted that assistance will be needed to meet their expenses at the end of the fiscal year, while also claiming optimistically that government expenditures and spending deficits have been reduced. (End Summary.)

¶2. (U) A delegation of IMF advisors visited Mauritania September 9-18th for meetings with the GIRM to discuss IMF re-engagement in Mauritania. During the course of their visit, they held meetings with President Aziz, public and private sector leaders and diplomatic representatives of large donor countries with embassies in Mauritania. At the conclusion of their visit, the lead delegate announced the intent of the IMF to re-establish its program with Mauritania, which had been frozen following the 2008 coup d'etat. As a gesture to mark their mutual re-engagement, the IMF announced the extension of a USD 80 million Special Drawing Right to Mauritania to assist with short-term economic difficulties caused by the global economic crisis.

¶3. (SBU) According to the outbriefing of the IMF team, Mauritania's economy has suffered more because of the domestic political crisis than the global economic crisis. As a small economy that is not well-integrated with the global financial system, the Mauritanian economy has not been irreparably damaged by the crisis. The global decrease in commodity prices, while hurting Mauritania's export markets, has had a greater impact on the control of inflation and the falling price of domestic imports, particularly food imports, on which Mauritania depends. The simultaneous drop in the price and demand for iron ore is the largest negative impact of the global crisis on the Mauritanian economy. The damage in investor confidence and international aid flows during the previous year of isolation will have the longest and largest impact on the health of the Mauritanian economy.

¶4. (C) The IMF team stressed that their initial visit was simply to re-establish a working relationship with the GIRM in preparation for the resumption of a three-year IMF assistance plan in 2010-2012, the details of which will be determined in a follow-on IMF visit to take place in November ¶2009. While the team did not release official statistics,

they estimate that the Mauritanian economy will contract by 1.2-1.8% in 2009. The GIRM also claims to have a surprisingly healthy USD 300 million in currency reserves. The IMF team estimates only a 5-6% budget deficit for 2009, somewhat smaller than the 9% budget deficit of 2008. The 5-6% budget deficit is larger than the 3% budget deficit agreed upon with the IMF in earlier discussions, yet smaller than many expected given the political uncertainty during the past year and the cessation of much international aid. The slightly smaller deficit is only because of large cutbacks in government spending; however, there were indications that these figures may not tell the complete story. According to the IMF, the GIRM claims they will need an emergency infusion of cash in order to meet their end of year expenses and many fear that not all government expenses from the past year have been factored into the estimates passed to the IMF analysts. Most expect a far more distressed economic picture to emerge after the November visit and closer to the end of the fiscal year in December.

¶5. (C) IMF Representative Mark Carre (strictly protect) told Charge September 21 he found some questionable numbers in what the Mauritanians had presented to the IMF. Carre accused the GIRM of using the international food price crisis of late 2008 to push through a number of post-coup expenditures. In 2008 the GIRM had highlighted the need to enter international food markets to ensure urban food supplies. The IMF had given its blessing for these unprogrammed expenditures but, according to Carre, had said they should have been off set by reduced capital investment expenditures to maintain the 3% budget deficit target.

During the IMF visit, the GIRM said that was not what the GIRM had understood. (Comment: In fairness, Charge had attended a meeting in 2008 where it did seem the IMF had given its blessing for increased deficit spending to meet the food crisis. End Comment). Carre had found a number of unanticipated projects in late 2008 -- including several paving and street projects in Nouakchott -- that clearly had nothing to do with the food crisis. Carre, who was blocked from the financial oversight mechanisms during the year of the coup, is doubtful the relatively positive outlook for 2009 will hold up. Although assured several times that all 2009 expenditures are listed in the oversight system, Carre is now finding late additions being added. The balance sheets still don't add up, according to Carre. The IMF Representative (who will be leaving his post and return to the World Bank September 25) agreed with Charge that government financial transparency and the strength of the economy had taken a hit because of expenditures meant to support the coup. He thought most of the oversight mechanisms could be re-established but he was doubtful there will be a clear accounting for expenditures during the 2008-2009 coup. Carre, who told Charge he was somewhat isolated (with the U.S.) in saying the GIRM public financing procedures had substantially improved under the 15 months of the Abdallahi government, was not confident the new Aziz administration would work as hard to provide honest figures. (Comment: Under the Abdallahi government, the Minister of Finance told donors to essentially ignore any pre-2005 government statistics as unreliable. He questioned himself whether the GIRM had the technical means to get reliable numbers, but donors saw serious efforts in that direction. End Comment)
HANKINS